

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

**CENTRAL ILLINOIS LIGHT COMPANY
D/B/A AMERENCILCO**

**CENTRAL ILLINOIS PUBLIC SERVICE
COMPANY D/B/A AMERENCIPS**

**ILLINOIS POWER COMPANY D/B/A
AMERENIP**

No. 09-0602

**Petition for approval of Reliability Projects
Surcharge Rider ("Rider RPS") to recover costs
of implementing recommendations of Liberty
Audit**

**REBUTTAL TESTIMONY OF
RALPH C. SMITH
ON BEHALF OF
THE PEOPLE OF THE STATE OF ILLINOIS**

AG Exhibit 2.0

December 2, 2010

**AMEREN CILCO, AMEREN CIPS, AMEREN IP
COLLECTIVELY AMEREN ILLINOIS UTILITIES**

**PREFILED REBUTTAL TESTIMONY OF
RALPH C. SMITH**

I. INTRODUCTION

Q. Please state your name and business address.

A. Ralph C. Smith, 15728 Farmington Road, Livonia, Michigan 48154.

Q. Are you the same Ralph C. Smith who prefiled direct testimony on behalf of the Attorney General (“AG”) in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I am testifying on behalf of the People of the State of Illinois represented by the AG in response to Ameren CILCO, Ameren CIPS, and Ameren IP (“AIUs”, “Ameren Utilities” or “Companies”) rebuttal testimony of Companies’ witness Craig D. Nelson.

II. RIDER RPS – RELIABILITY PROJECTS SURCHARGE

Q. What position have the AIUs taken in their rebuttal filing concerning Rider RPS?

A. As described in the rebuttal testimony of Mr. Nelson, the AIUs now propose to withdraw Rider RPS.

Q. Do you agree that Rider RPS should be withdrawn?

A. Yes. My direct testimony discussed the AIUs' proposal for Rider RPS and recommended that this proposed rider be rejected. Accordingly, the AIUs withdraw of Rider RPS is consistent with the recommendations stated in my direct testimony and with the AG's Motion to Dismiss.¹ Consequently, I agree with the AIUs' withdrawal of their proposed Rider RPS.

III. OTHER ISSUES – COMMISSION REVIEW AND APPROVAL OF LIBERTY RECOMMENDED PROJECTS

Q. What other issues are raised in the AIUs' rebuttal testimony?

A. Mr. Nelson requests that this proceeding be used to provide for "some form of Commission dispositive review of the AIU proposed implementation plan ..."²

¹ AG witness Ralph Smith's direct testimony and exhibits were filed on August 24, 2010; Exhibit 1.0, Exhibit 1.1, and Exhibit 1.2; The AG and Citizens Utility Board (AG-CUB) Motion to Dismiss was filed on October 8, 2010.

² See, e.g., Ameren Exhibit 4.0, page 4, lines 87-88.

40 Additionally, Mr. Nelson, addresses whether the AIUs should conduct cost-
41 benefit analyses for specific projects.³ For example, he states that: “Conducting
42 further cost benefit analysis without specification would require significant
43 resources and effort on Ameren Illinois’ part.”⁴ Next, Mr. Nelson, “seeks
44 clarification on each recommendation to ascertain whether or not the Commission
45 agrees with the Liberty recommendation as far as providing a value to
46 customers.”⁵ He also seeks to have the Commission advise the AIUs if the
47 Commission determines that the costs of certain recommendations outweigh any
48 benefits.⁶

49
50 **Q. Do you agree with these recommendations of Mr. Nelson?**

51 A. No. The AIUs seek pre-approval of Liberty recommendation implementation.
52 Mr. Nelson suggests in his rebuttal testimony that this is appropriate in part
53 because witnesses for the AG (including my direct testimony) and Staff have
54 criticized the AIUs’ evidence as lacking cost-benefit justification, which to the
55 AIUs indicates a risk of potential future cost disallowance and thus a need for pre-
56 approval. However, the Commission pre-approval sought by the AIUs is not
57 necessary or appropriate, and should not be granted, for several reasons including
58 the following:

³ Ameren Exhibit 4.0, page 6-7.

⁴ Ameren Exhibit 4.0, page 7, lines 154-155.

⁵ Ameren Exhibit 4.0, page 7, lines 169-171.

⁶ See, e.g., Ameren Exhibit 4, page 7, lines 171-173.

59 First, the traditional regulatory framework does not have the Commission
60 running the business or pre-approving management decisions as to whether and
61 specifically how to proceed with individual projects, but instead recognizes that
62 utility management has the expertise, familiarity with operational issues and
63 financial resources to decide how best to optimally invest capital, select solutions,
64 and implement projects. This framework does not change when a regulatory audit
65 is completed.

66 Second, no proceeding is needed at this time for the Commission or its
67 Staff to independently conduct cost-benefit studies of the Liberty Audit
68 recommendations, so as to direct the AIUs on how to implement the Liberty Audit
69 or to pre-approve the AIUs' implementation plans. The AIUs seek to shift
70 responsibility for cost-benefit evaluations from themselves and place this instead
71 on the Commission and Staff, which is contrary to the traditional regulatory
72 framework, as noted above.

73 Third, the observations stated in my direct testimony that the AIUs had no
74 studies to support cost-effectiveness of costs sought by the AIUs for special rider-
75 based recovery was part of the basis for rejecting special rider recovery of costs.
76 The withdrawal of their proposed Rider RPS by the AIUs is consistent with the
77 recommendations and evaluation described in my direct testimony and the AG's
78 Motion to Dismiss. Fourth and finally, the AIUs should analyze each element of
79 the Liberty Audit and implement all of the Liberty audit recommendations while
80 being prepared to explain which recommendations the AIUs dispute with studies

81 to support each objection.⁷ The AIUs have already implemented many of the
82 recommendations and should continue with deployment of all cost-effective
83 Liberty recommendations. Costs are recoverable through base rate proceedings,
84 subject to a showing that management was not imprudent.

85 Consequently, the requests by AIU witness Nelson for Commission pre-
86 approval of the AIU's implementation and related costs of Liberty Audit related
87 projects should be rejected as unnecessary and inappropriate. The AIUs'
88 requested pre-approval of remaining project costs is unnecessary and should be
89 denied for the reasons described above, in my direct testimony, and in the AG's
90 Motion to dismiss as well as Staff's testimony.

91
92 **Q. Does that conclude your rebuttal testimony?**

93 **A.** Yes, it does.

⁷ As Ameren stated in their document titled *Ameren Audit Initial Response and Discussion of Final Recommendations*,

AmerenIL feels the review of our system [Liberty Audit] was thorough and complete. We have accepted the vast majority of Liberty's recommendations (139 of 157 with the additional acceptance of a great percentage of 2 other recommendations). Included is a spreadsheet detailing the company's response to each of the individual recommendations as well as an implementation plan for each recommendation not listed in the document... Ameren Exhibit 5.2, page 14.